

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-03 INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SP-03 CIEP-03 LAB-06 SIL-01 OMB-01 NSC-07 SS-20

STR-08 CEA-02 SAJ-01 PA-04 PRS-01 USIA-15 DRC-01 /175 W

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R 231541Z AUG 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 4597

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS BONN 13391

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652:N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING AUGUST 22)

REF: BONN 13025 AND A-398

1. MINIMUM RESERVE REDUCTION. ON AUGUST 16, AT ITS FIRST MEETING AFTER THE SUMMER PAUSE, THE CENTRAL BANK COUNCIL OF THE BUNDESBANK DECIDED TO REDUCE BY 10 PERCENT THE MINIMUM RESERVE REQUIREMENTS OF DOMESTIC BANKS. THE MEASURE BECOMES EFFECTIVE SEPTEMBER 1. RESERVE RATIOS FOR THE BANKS' FOREIGN LIABILITIES REMAINED UNCHANGED. THE MEASURE WOULD RELEASE DM 4.75 BILLION FROM THE BANKS' RESERVE HOLDINGS AT THE BUNDESBANK (FOR DETAILS AND FIRST REACTIONS - SEE BONN 13025).

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2. MONETARY RESERVES. IN THE SECOND WEEK OF AUGUST (AUGUST 8-15)

BUNDESBANK MONETARY RESERVES DECLINED BY DM 0.4 BILLION TO DM 90.8 BILLION. HOLDINGS OF LIQUID FOREIGN EXCHANGE FELL BY DM 75 MILLION AND GERMANY'S IMF GOLD TRANCHE POSITION BY DM 29 MILLION WHILE GROSS LIABILITIES INCREASED BY ABOUT DM 290 MILLION.

3. BANK LIQUIDITY. IN THE SECOND WEEK OF AUGUST BANK LIQUIDITY INCREASED BY DM 2.2 BILLION. THE MAJOR FACTOR INCREASING LIQUIDITY WAS A DECLINE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK (DM 3.9 BILLION). THE USUAL DECLINE IN CURRENCY IN CIRCULATION IN THE SECOND WEEK OF A MONTH CONTRIBUTED (DM 0.5 BILLION). THE MAIN FACTORS REDUCING LIQUIDITY WERE MID-MONTH TAX PAYMENTS WHICH INCREASED OFFICIAL NET ASSETS HELD AT THE BUNDESBANK BY DM 1.7 BILLION, AND THE ABOVEMENTIONED DECLINE IN BUNDESBANK MONETARY RESERVES. OTHER FACTORS REDUCED LIQUIDITY BY DM 0.1 BILLION, NET. THE BANKS USED THE INCREASE IN LIQUIDITY TO REDUCE LOMBARD BORROWINGS BY DM 2.4 BILLION, BUT, AT THE SAME TIME, INCREASED REDISCOUNT BORROWINGS BY DM 0.2 BILLION.

4. FOREIGN EXCHANGE MARKET. THE DOLLAR STRENGTHENED CONSIDERABLY AGAINST THE DEUTSCHEMARK BEFORE WEAKENING SOMEWHAT ON AUGUST 21. THE GERMAN PRESS CONTINUED TO ATTRIBUTE THE DOLLAR STRENGTHENING MAINLY TO PRESIDENT FORD'S INAUGURATION AND REPORTS ON FLOWS OF PETRO DOLLARS TO THE U.S. DURING THE REPORTING WEEK SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

FORWARD DOLLARS				
DISCOUNTS/PREMIA IN PERCENT P.A.				
SPOT DOLLARS		ONE-MONTH THREE-MONTH		
AUGUST 15	DM 2.6085	-3.9	-4.5	
16	2.6215	-5.0	-4.7	
19	2.6410	-4.3	-4.5	
20	2.6442	-4.1	-4.5	
21	2.6297	-3.4	-4.3	
22	2.6400	-3.6	-4.4	

WITHIN THE JOINT FLOAT THE DEUTSCHEMARK REMAINED THE WEAKEST CURRENCY. ALL FLOAT CURRENCIES REMAINED AT OR NEAR THEIR UPPER DEUTSCHEMARK INTERVENTION POINTS, AND ON MOST DAYS OF THE REPORTING WEEK THE BUNDESBANK HAD TO INTERVENE WITH SALES OF BELGIAN FRANCS, DUTCH GULDERS AND DANISH CROWNS.

5. MONEY MARKET. THE GERMAN MONEY MARKET REMAINED TIGHT. ALL MONEY RATES CONTINUED TO BE ABOVE 9 PERCENT, THE INTEREST RATE AT WHICH THE BUNDESBANK GRANTS LOMBARD CREDITS TO BANKS. NO PSYCHOLOGICAL EFFECT ON THE MARKET WAS APPARENT FROM THE BUNDESBANK UNCLASSIFIED

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DECISION TO REDUCE MINIMUM RESERVES. DURING THE REPORTING WEEK FRANKFURT INTER-BANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY			
AUGUST 15	9.0-9.2	9.1-9.3	9.4-9.6
16	8.9-9.1	9.1-9.4	9.4-9.7
19	9.0-9.3	9.1-9.3	9.4-9.6
20	9.0-9.3	9.1-9.3	9.5-9.7

21	9.0-9.5	9.2-9.4	9.5-9.7
22	9.0-9.5	9.2-9.4	9.5-9.8

6. BOND MARKET. THE SLIGHT INCREASE IN DOMESTIC BONDS WHICH BEGAN DURING THE LAST WEEK ACCELERATED SOMEWHAT THIS WEEK. ALTHOUGH THE MINIMUM RESERVE REDUCTION MAY HAVE CONTRIBUTED TO THIS INVESTORS NOW APPEAR TO BECOME INCREASINGLY CONVINCED THAT THE INTEREST RATE PEAK HAS BEEN REACHED. THE FAZ AVERAGE YIELDS TO MATURITY OF OUTSTANDING DOMESTIC BONDS DEVELOPED AS FOLLOWS:

	8 PERCENT	7 PERCENT	6 PERCENT
AUGUST 15	11.25	11.14	10.51
16	11.08	11.12	10.49
19	11.07	11.12	10.49
20	11.05	11.10	10.39
21	11.02	11.08	10.45
22	10.96	11.08	10.49

ON AUGUST 22 A DM 600 MILLION LOAN OF THE FEDERAL GOVERNMENT WILL BE OFFERED (COUPON 10 PERCENT, ISSUE PRICE 98 1/2 PERCENT, MATURITY 6 YEARS, NON-CALLABLE, YIELD TO MATURITY 10.35 PERCENT). THIS YIELD IS SOMEWHAT LOWER THAN THE 10.53 PERCENT YIELD OF THE FEDERAL RAILWAYS LOAN OFFERED ON AUGUST 5 (SEE BONN A-398) BUT IN VIEW OF THE RECENT SLIGHT DECLINE IN DOMESTIC BOND PRICES THE MARKET APPEARS TO HAVE ACCEPTED THE YIELD DECLINE. DM 550 MILLION OF THE LOAN WILL BE PUBLICLY OFFERED, THE REMAINDER WILL BE RESERVED FOR BUNDESBANK OPEN MARKET OPERATIONS.

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